

**Taylor School District
Taylor, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

Taylor School District

Taylor, Michigan

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June 30, 2006

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Taylor School District

TABLE OF CONTENTS

June 30, 2006

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-xi
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities	8
Fiduciary Fund:	
Statement of Fiduciary Net Assets	9
Notes to Basic Financial Statements	10-26
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	27-28
Budgetary Comparison Schedule - Federal and State Projects Fund	29
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	30-31
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	32-33
Schedule of Bonded Debt Outstanding	34
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	35

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Taylor School District
Taylor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Taylor School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Taylor School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Taylor School District as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2006 on our consideration of Taylor School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control and financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Taylor School District's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 27, 2006

This section of Taylor School District's annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Taylor School District, a K-12 school district located in Wayne County, Michigan, is in its fourth year of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Taylor School District's management's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Taylor School District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, Federal and State Projects Fund and Building and Site Fund individually, and the Special Revenue Funds and Debt Service Funds collectively as other non-major governmental funds. The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, child care, recreation and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The district-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. The District also accounts for instructional and instructional support activities funded by specific grants in the Federal and State Projects Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, Special Education, and School Service Funds which are comprised of: Athletics, and Cafeteria.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Summary of Net Assets:

The following summarizes the net assets as of June 30, 2006 and 2005:

Condensed Statement of Net Assets
as of June 30, 2006 and 2005

	Governmental Activities 2006	Governmental Activities 2005
Assets		
Current Assets	\$ 36,767,789	\$ 39,702,117
Capital Assets	<u>22,702,411</u>	<u>21,805,744</u>
Total Assets	59,470,200	61,507,861
Liabilities		
Current Liabilities	33,229,938	32,928,163
Noncurrent Liabilities	<u>21,296,071</u>	<u>21,983,522</u>
Total Liabilities	54,526,009	54,911,685
Net Assets		
Invested in capital assets, net of related debt	10,224,930	9,750,271
Unrestricted	<u>(5,280,739)</u>	<u>(3,154,095)</u>
Total Net Assets	<u>\$ 4,944,191</u>	<u>\$ 6,596,176</u>

Analysis of Financial Position:

- The \$5,280,739 deficit in unrestricted net assets of governmental activities represents the accumulated results of all past year's operations. A positive unrestricted net assets balance enables school districts to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year. The District shows total net assets of governmental activities of \$4,944,191 which is explained primarily by the following factors:
- Capital assets that have been purchased over the past years (net of accumulated depreciation) totaled \$22,702,411
- Debt has been incurred by the District over the past years to fund capital projects. The outstanding balance of this debt totaled \$13,821,275.

Results of Operations:

For the fiscal years ended June 30, 2006 and 2005, the District-wide results of operations were:

Condensed Statement of Activities
Years Ended June 30, 2006 and 2005

	Governmental Activities 2006	Governmental Activities 2005
Revenues:		
Program Revenues		
Charges for Service	\$ 1,892,204	\$ 1,857,858
Operating Grants	18,883,511	18,946,018
General Revenues		
Property Taxes	13,442,555	13,335,104
State School Aid-unrestricted	66,045,048	66,716,564
Other	<u>946,705</u>	<u>823,265</u>
Total Revenues	101,210,023	101,678,809
Functions/Program Expenses:		
Instruction	56,487,327	53,371,789
Supporting services	41,211,811	39,930,115
Community services	278,689	272,566
Food service	3,317,158	3,235,653
Athletics	943,610	937,394
Interest on long-term debt	<u>623,413</u>	<u>870,566</u>
Total Expenses	<u>102,862,008</u>	<u>98,618,083</u>
(Decrease) Increase in Net Assets	<u>\$(1,651,985)</u>	<u>\$ 3,060,726</u>

Analysis of Results of Operations:

During fiscal year ended June 30, 2006, the District's net assets decreased by \$1,651,985. Several factors which helped cause the decrease are discussed in the following sections.

A. Governmental Fund Operating Results

The District's expenditures and other financing uses from governmental fund operations exceeded revenues and other financing sources by \$1,755,306 for the fiscal year ended June 30, 2006. Further discussion of the District's operating results is available in the section entitled "Results of 2005-2006 Operations" located on the following page.

B. Capital Outlay in Excess of Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2005-2006, the District's investment in new or replacement assets exceeded the current year depreciation, causing an increase in net district assets. The District's overall net assets were increased by \$896,667 calculated as the difference between new capital investments \$2,113,757, depreciation allocated against the useful lives of district assets (\$1,202,988) and loss on disposal of equipment of (\$14,102).

C. Long-Term Debt Activities

The District reduced its long term debt obligations during 2005-2006 by making principal payments in the amount of \$1,474,173. The District also had a net increase in other accrued liabilities (i.e., Accrued interest payable, risk liabilities, compensated absences) of \$862,435.

D. Deferred Revenues

The District corrected the accounting for deferred revenues related to grant program activities. As a result, the difference between the deferred revenue reported in the government-wide and fund level financial statements was reduced by \$1,405,084.

Results of 2005-2006 Operations

During fiscal year ended June 30, 2006, the District net assets decreased by \$1,651,985. A few additional significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Taylor School District such as: salaries and benefits for teachers, classroom aides, administrators, and support staff; teaching supplies, employee training, utilities, building maintenance supplies and other costs.

The District's General Fund expenditures exceeded revenues by \$823,413 for the fiscal year ended June 30, 2006. The General Fund as of June 30, 2006, has a fund balance of \$7,677,602 or 9% of expenditures for the 2005-2006 fiscal year. The School District made budget reductions in certain areas for the 2005-2006 fiscal year and most likely will have to continue these reductions for 2006-07 unless funding from the State of Michigan improves.

B. Debt Service Fund Operations

The Debt Service Funds consist of five (5) separate debt funds as follows: 1996 Debt, 1997 Debt, 2004 Debt, 2005 Debt and Durant Debt. The Debt Service Funds are set up to collect General Fund Transfers, State Aid payments for Durant Debt and pay annual debt payments.

Taylor School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

The School District does not levy taxes to make debt payment obligations. Instead the District budgets the payments from General Fund. The District also had long term notes payable, accrued vacation, workers compensation, compensated absences and early retirement incentives outstanding at June 30, 2006, which totaled \$10,655,232.

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	Principal Balance <u>June 30, 2005</u>	Principal Payments	Principal Balance <u>June 30, 2006</u>
1996 bonds	\$ 730,000	\$ 730,000	\$ -
Durant bonds	2,043,305	154,810	1,888,495
1997 bonds	2,255,000	275,000	1,980,000
2004 bonds	5,925,000	175,000	5,750,000
2005 bonds	<u>3,670,000</u>	<u>-</u>	<u>3,670,000</u>
Total long-term bond obligations	<u>\$ 14,623,305</u>	<u>\$ 1,334,810</u>	<u>\$ 13,288,495</u>

C. School Service Funds

The Taylor School District also has school service funds that include the following: Cafeteria Fund and Athletic Fund.

The Cafeteria Fund reports costs of the food service program. In 2005-2006 the Cafeteria Fund had revenues and expenditures of \$3,346,969. The Cafeteria Fund must have a balanced budget and the District contributed \$181,382 from the General Fund to balance the fund. The Cafeteria Fund generated \$3,165,587 in revenue from food sales, Federal and State grants, and other sources. The Cafeteria Fund had no fund balance.

The Athletics Fund includes all costs for High School and Middle School athletic programs including the cost for coaches, officials, supplies, tournaments, transportation and other items. In 2005-2006 the Athletics Fund had revenues and expenditures of \$886,081. The Athletics Fund must have a balanced budget, and the District contributed \$669,650 from the General Fund to balance the fund. The Athletics Fund generated \$216,431 in revenue from gate receipts, passes, fees, donations, and other items. The Athletics Fund had no fund balance.

D. Special Education Fund

The Special Education Fund is a Special Revenue Fund that reports the costs of providing a county wide educational program for POHI (physically or otherwise health impaired) students. This fund receives revenue from a county special education millage that is paid to the District from Wayne RESA and also State categorical revenues. In 2005-2006 the Special Education Fund had revenues of \$3,655,378 and expenditures of \$3,147,376. This fund had a deficit fund balance at the beginning of the year due to a delay in revenue recognition under GASB No. 33 rules. Due to further interpretation related to receipt of revenue and the corresponding recognition, this fund should not have a fund balance. A prior year adjustment was made in this fund with a positive impact to General Fund.

E. Federal and State Projects Fund

The Federal and State Projects Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions related to certain programs funded by federal and state agencies. In 2005-2006 the Federal and State Projects fund had revenues of \$11,812,127 and expenditures of \$11,405,627. This fund had a deficit fund balance at the beginning of the year due to a delay in revenue recognition under GASB No. 33 rules. Due to further interpretation related to receipt of revenue and the corresponding recognition, this fund should not have a fund balance. A prior year adjustment was made in this fund with a positive impact to General Fund.

F. Building and Site Fund

The Building and Site Fund is designated for the disbursement of monies from bond proceeds to acquire new capital assets including sites and improvements, buildings and improvements, equipment, and vehicles. The fund is kept open until the project for which the fund was created has been completed. In 2005-2006, the District continued to make building improvements including roof and door replacements using the funds from the 2005 bond issue.

G. Net Investment in Capital Assets

The District's net investment in capital assets increased by \$896,667. This can be summarized as follows:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2006</u>
Capital assets	\$ 45,200,565	\$ 1,870,151	\$ 47,070,716
Less: accumulated depreciation	<u>(23,394,821)</u>	<u>(973,484)</u>	<u>(24,368,305)</u>
Net Investments in Capital Assets	<u>\$ 21,805,744</u>	<u>\$ 896,667</u>	<u>\$ 22,702,411</u>

IMPORTANT ECONOMIC FACTORS

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The unrestricted aid provided by the State of Michigan is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead property valuation

Per Student Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Taylor School District's foundation allowance was \$7,642 per student for the 2005-2006 school year. The District also receives \$165 per student for Section 20(19) as part of the foundation allowance.

Student Enrollment:

The District's student enrollment for the blended count of 2005-2006 was 10,414 students. The District's enrollment decreased from the prior school year's blended student count. The following summarizes the blended student enrollments in the past five years:

	<u>Student FTE</u>
2005-2006	10,414
2004-2005	10,746
2003-2004	10,834
2002-2003	10,766
2001-2002	10,648

2. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for 2005-2006 fiscal year was \$13,442,555.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Expenditures and Other Uses Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2005-2006	\$85,868,043	\$84,618,158	\$83,972,357	\$1,895,686	\$645,801

General Fund Revenues and Other Sources, Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2005-2006	\$85,903,628	\$83,770,769	\$83,148,944	(\$2,754,684)	(\$621,825)

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Taylor School District amends its budget periodically during the school year. The June 2006 budget amendment was the final budget for the fiscal year.

Revenue Change from Original to Final Budget:

		<u>Percent</u>
Total Revenues Original Budget	\$ 85,903,628	
Total Revenues Final Budget	<u>83,770,769</u>	
Decrease in Budget Revenues	<u>\$ 2,132,859</u>	2.5

The District's final actual General Fund revenues were less than the final budget by \$621,825, a negative variance of .74% from the final budget.

The final revenue budget reflects the following changes from the Original Budget.

- The District received notice that Medicaid Outreach funds would not be provided and fee for service revenue would be decreased.
- The revenue budgeted from the sale of properties would not be realized due to the weak real estate market.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures Original Budget	\$ 85,868,043	
Total Expenditures Final Budget	<u>84,618,158</u>	
Decrease in Budget Expenditures	<u>\$ 1,249,885</u>	1.5

The District's actual expenditures were less than final budget by \$645,801; a positive variance of .8% from the final budget.

Some of the significant changes in expenditure budgets for the year include:

- The District used categorical funds in the Federal and State Projects Fund for instructional salaries and benefits.

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2006 fiscal year budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 80 percent to 85 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

In fiscal year 2006, the health and pension charge to employers in the State's retirement plan had been 16.34 percent of payroll, which was comprised of 6.55 percent for health and 9.79 percent for pension. The contribution rate for fiscal year 2007 is set at 17.74 percent of payroll, which is comprised of 6.55 percent for health and 11.19 percent for pension. In both years the rate charged reflects the use of reserves in the retirement plan to hold the rate below the calculated level.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, it can be obtained by contacting the following person:

Susan K. Featheringill
Assistant Superintendent for Business Operations
Taylor Public Schools
23033 Northline Road
Taylor, MI 48180
Phone: (734) 374-1225, Fax (734) 374-2325
Or E-Mail: feathes@taylor.k12.mi.us

BASIC FINANCIAL STATEMENTS

Taylor School District

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 18,513,668
Cash and cash equivalents - restricted	1,798,459
Receivables	
Accounts	205,226
Taxes	904,809
Interest	41,309
Due from other governmental units	14,114,518
Inventories	606,975
Prepaid expenses	<u>582,825</u>
Total current assets	36,767,789
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>22,702,411</u>
TOTAL ASSETS	59,470,200
LIABILITIES	
Current liabilities	
Accounts and retainage payable	815,188
Accrued payroll	5,985,029
Accrued interest payable	101,701
Other accrued liabilities	2,917,236
Deferred revenue	1,524,097
Short-term notes payable	15,000,000
Due to other governmental units	1,039,703
Current portion of compensated absences, early retirement and other risk liabilities	4,944,755
Current portion of long-term debt	<u>902,229</u>
Total current liabilities	33,229,938
Noncurrent liabilities	
Noncurrent portion of accrued interest payable	257,649
Noncurrent portion of compensated absences, early retirement and other risk liabilities	8,119,376
Noncurrent portion of long-term debt	<u>12,919,046</u>
Total noncurrent liabilities	<u>21,296,071</u>
TOTAL LIABILITIES	54,526,009
NET ASSETS	
Invested in capital assets, net of related debt	10,224,930
Unrestricted (deficit)	<u>(5,280,739)</u>
TOTAL NET ASSETS	\$ 4,944,191

See accompanying notes to financial statements.

Taylor School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Governmental Activities	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants	Revenues and Changes in Net Assets
				Governmental Activities
Functions/Programs				
Instruction	\$ 56,487,327	\$ 39,773	\$ 9,210,757	\$ (47,236,797)
Supporting services	41,211,811	708,857	7,154,496	(33,348,458)
Community services	278,689	-	279,814	1,125
Food services	3,317,158	927,143	2,238,444	(151,571)
Athletics	943,610	216,431	-	(727,179)
Interest on long-term debt	623,413	-	-	(623,413)
TOTAL EXPENSES	\$ 102,862,008	\$ 1,892,204	\$ 18,883,511	(82,086,293)
General Revenues				
Property taxes - levied for general purposes				13,442,555
State school aid - unrestricted				66,045,048
Interest and investment earnings				695,314
Rentals				195,408
Other				70,085
Special item - Loss on disposal of equipment				(14,102)
TOTAL GENERAL REVENUES AND SPECIAL ITEM				80,434,308
CHANGE IN NET ASSETS				(1,651,985)
Net assets, beginning of year				6,596,176
Net assets, end of year				\$ 4,944,191

See accompanying notes to financial statements

Taylor School District

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Federal and State Projects	Building and Site
ASSETS			
Cash and cash equivalents	\$ 18,512,439	\$ -	\$ 1,798,459
Accounts receivable	203,228	-	-
Taxes receivable	904,809	-	-
Accrued interest receivable	40,729	-	580
Due from other funds	-	687,621	-
Due from other governmental units	12,653,071	776,439	-
Inventories	587,505	-	-
Prepaid expenditures	575,291	7,534	-
	<u>\$ 33,477,072</u>	<u>\$ 1,471,594</u>	<u>\$ 1,799,039</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 632,955	\$ 80,582	\$ 1,220
Accrued payroll	5,763,110	-	-
Retainage payable	-	-	94,675
Other accrued liabilities	2,844,291	-	-
Due to other funds	242,358	38,178	-
Due to other governments	1,039,703	-	-
Notes payable	15,000,000	-	-
Deferred revenue	277,053	1,352,834	-
	<u>25,799,470</u>	<u>1,471,594</u>	<u>95,895</u>
FUND BALANCES			
Reserved for			
Encumbrances	248,034	-	-
Inventory and prepaids	1,162,796	7,534	-
Construction commitments	-	-	926,533
Capital projects	-	-	776,611
Unreserved			
Designated for:			
ERI payments due July 1	710,000	-	-
Severance payments due July 1	570,206	-	-
Risk and other liabilities due within one year	3,664,549	-	-
Undesignated, reported in:			
General Fund	1,322,017	-	-
Federal and State Projects Fund	-	(7,534)	-
Special Revenue Funds	-	-	-
	<u>7,677,602</u>	<u>-</u>	<u>1,703,144</u>
	<u>\$ 33,477,072</u>	<u>\$ 1,471,594</u>	<u>\$ 1,799,039</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,229	\$ 20,312,127
1,998	205,226
-	904,809
-	41,309
10,894	698,515
685,008	14,114,518
19,470	606,975
-	582,825
<u>\$ 718,599</u>	<u>\$ 37,466,304</u>
\$ 5,756	\$ 720,513
221,919	5,985,029
-	94,675
51,779	2,896,070
439,145	719,681
-	1,039,703
-	15,000,000
-	1,629,887
718,599	28,085,558
-	248,034
19,470	1,189,800
-	926,533
-	776,611
-	710,000
-	570,206
-	3,664,549
-	1,322,017
-	(7,534)
<u>(19,470)</u>	<u>(19,470)</u>
<u>-0-</u>	<u>9,380,746</u>
<u>\$ 718,599</u>	<u>\$ 37,466,304</u>

Taylor School District

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds \$ 9,380,746

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 47,070,716	
Accumulated depreciation is	<u>(24,368,305)</u>	22,702,411

Other long-term assets not available to pay current period expenditures, therefore deferred in the governmental funds		105,790
---	--	---------

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and notes payable	(13,821,275)	
Accrued interest payable	(359,350)	
Compensated absences, early retirement incentives and worker's compensation	<u>(10,122,452)</u>	(24,303,077)

Risk liabilities are not reported reported in the governmental funds under the provision of GASB No. 16, Interpretation 6		<u>(2,941,679)</u>
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Net assets of governmental activities \$ 4,944,191

See accompanying notes to financial statements.

Taylor School District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	<u>General</u>	<u>Federal and State Projects</u>	<u>Building and Site</u>
REVENUES			
Local sources	\$ 15,310,480	\$ 153,578	\$ 93,141
State sources	66,797,166	4,508,535	-
Federal sources	16,610	7,150,014	-
OTHER FINANCING SOURCES			
Transfers from other funds	-	-	-
Interdistrict	1,024,688	-	-
TOTAL REVENUES AND OTHER FINANCING SOURCES			
	83,148,944	11,812,127	93,141
EXPENDITURES			
Current			
Instruction	46,088,970	7,557,494	-
Supporting services	34,751,495	3,540,400	-
Community services	-	278,689	-
Food service activities	-	-	-
Athletic activities	-	-	-
Capital outlay	365,631	29,044	1,939,094
Debt service			
Principal retirement	139,363	-	-
Interest, fiscal and other charges	26,880	-	-
OTHER FINANCING USES			
Transfers to other funds	2,600,018	-	-
TOTAL EXPENDITURES AND OTHER FINANCING USES			
	83,972,357	11,405,627	1,939,094
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES			
	(823,413)	406,500	(1,845,953)
Fund balances, beginning of year	8,313,429	(368,322)	3,549,097
Prior period adjustments	187,586	(38,178)	-
Fund balances, end of year	<u>\$ 7,677,602</u>	<u>\$ -</u>	<u>\$ 1,703,144</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Totals Governmental Funds
\$ 1,143,574	\$ 16,700,773
1,216,356	72,522,057
1,988,347	9,154,971
2,600,018	2,600,018
<u>2,913,716</u>	<u>3,938,404</u>
9,862,011	104,916,223
1,250,364	54,896,828
1,892,864	40,184,759
-	278,689
3,308,814	3,308,814
886,081	886,081
42,303	2,376,072
1,334,811	1,474,174
639,214	666,094
-	<u>2,600,018</u>
<u>9,354,451</u>	<u>106,671,529</u>
507,560	(1,755,306)
(358,152)	11,136,052
<u>(149,408)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 9,380,746</u>

Taylor School District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ (1,755,306)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 2,113,757	
Depreciation expense	(1,202,988)	
Loss on disposal of capital assets	<u>(14,102)</u>	896,667

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond and note principal retirement	1,474,173
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Some revenues reported in the statement of activities are reported as earned, and do not meet the criteria of being current financial resources as required to be reported in the governmental funds. In the current period, these amounts consist of:

(Decrease) in deferred revenue	(1,405,084)
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Some expenditures reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. In the current period, these amounts consist of:

Decrease in accrued interest payable	42,682	
(Increase) in other risk liabilities	(818,169)	
(Increase) in compensated absences, early retirement, accrued vacation and workers' compensation	<u>(86,948)</u>	<u>(862,435)</u>

Change in net assets of governmental activities \$ (1,651,985)

See accompanying notes to financial statements.

Taylor School District

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	<u>Student Activities</u>
ASSETS	
Cash and cash equivalents	\$ 489,165
Interest receivable	1,337
Due from other funds	<u>21,166</u>
TOTAL ASSETS	<u>\$ 511,668</u>
LIABILITIES	
Accounts payable	\$ 12,386
Due to student groups	<u>499,282</u>
TOTAL LIABILITIES	<u>\$ 511,668</u>

See accompanying notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Taylor School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Taylor School District (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District, except those required to be accounted for in another fund.
- b. Federal and State Projects Fund - The Federal and State Projects Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions related to certain programs funded by federal and state agencies.
- c. Building and Site Fund - The Building and Site Fund is used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new capital assets for the District, which includes new school sites, buildings, equipment and major remodeling. The fund is kept open until the project or purchase for which the fund was created has been completed or accomplished.

Additionally, the District reports the following fund types:

- d. Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Special Revenue Funds maintained by the District are the Athletics Fund, Cafeteria Fund and Special Education Fund.
- e. Debt Funds - Debt Funds are used to record tax, interest, and other revenue for payment of principal and interest and other expenditures and the disbursements thereof on a particular bond issue. For reporting purposes, the Debt Fund is divided into each debt issue, which are the 1996 Energy, 1997, 2004, 2005 Debt Funds and the Durant Debt Fund.
- f. Fiduciary Funds - Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the student and parents.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Accounting - continued

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue funds. All unexpended appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- f. The budget, as presented, has been amended in a legally permissible manner. Two (2) Supplementary appropriations were made during the year with the final amendments being approved June 12, 2006.
- g. Encumbrance accounting is employed in governmental funds. Encumbrances (purchase orders, contracts, etc.) outstanding at year end are reported as reservations of fund balances and do not constitute expended items or liabilities because the goods and services have not been received as of year end.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts, pooled investment accounts, and short-term investments with an original maturity of 90 days or less. Cash equivalents are recorded at cost, which approximates market value.

The restricted cash and cash equivalents represents the amounts held in the Building and Site Fund related to unspent bond proceeds and related interest that is required to be set aside for construction.

6. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Inventories / Prepaids

Inventories are stated at cost on a first in/first out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. The General Fund inventory consists of replacement and repair parts from the District bus garage and maintenance departments as well as paper and technology supplies from the Professional Resource Center and school stores inventories. The Cafeteria Fund inventory consists of food and paper goods.

8. Due from Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs, State Aid payments and other purposes. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2006 to be paid in July and August 2006. Of the total amount of \$14,114,518 due from other governmental units, \$12,311,023 consists of State Aid and the remaining \$1,803,495 from other governmental grants.

9. Capital Assets

Capital assets include land and improvements, buildings and improvements, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than five (5) years. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20 - 50 years
Buildings and improvements	20 - 50 years
Buses and other vehicles	5 - 10 years
Furniture and other equipment	5 - 20 years

The District has no assets that would be classified as infrastructure assets.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Compensated absences consist of earned but unused accumulated vacation and sick leave benefits, early retirement incentives, and other severance benefits. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

11. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements related to interest payable on general obligation and Durant bonds.

12. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

In both the government-wide and fund financial statements, funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums and discounts on debt issuances are netted and are reported as either other financing sources or other financing uses. Issuance costs are reported as debt service expenditures. The amounts were not considered material for purposes of amortization in the government-wide financial statements.

13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year for approximately 50 percent of the taxes that are due September 30, and December 1 for the remainder of the taxes that are due February 28 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected within 60 days of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected, except for amounts received after 60 days from year end, which are recorded as deferred revenue.

The District levies a total of \$18 per \$1000 of taxable valuation on nonhomestead property for general governmental services.

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state wide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in February 2005 and September 2005. The average calculation was weighted 25% for the February 2005 count and 75% for the September 2005 count.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. State Foundation Revenue - continued

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

15. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

16. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

17. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

18. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, the carrying amount of the District's deposits was \$3,599,012 and the bank balance was \$3,612,465, of which \$344,482 was covered by federal depository insurance. The balance of \$3,267,983 was uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

As of June 30, 2006, the carrying amounts and market values for each type of investment as reported in the cash and cash equivalents captions on the governmental funds balance sheet are as follows:

<u>Investment Type</u>	<u>Carrying Amount/ Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized - pooled investment funds		
Bank investment pool	\$ 13,453	< 12 months
Cash management funds	10,620,081	< 12 months
Sweep accounts	<u>6,568,746</u>	< 12 months
	<u>\$ 17,202,280</u>	

The pooled investment funds are not categorized at a risk level because they are not evidenced by securities that exist in physical or book entry form.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUEDCredit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, none of the District's investments were rated due to the types of investments held by the District.

Interest rate risk

The District has adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270 day maturity. The District minimizes its interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of credit risk

The District has adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District policy places no limit on the amount the District may invest in any one issuer. The District minimizes the concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial risk, which is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party. The District's policy limits the types of investments and depositories to those complying with State statute, and also requires prequalification of financial institutions, brokers/dealers, intermediaries and advisors. The District does not hold any investments subject to custodial credit risk of investments at year end.

As of June 30, 2006, the cash and cash equivalents and investments referred to above have been reported in the cash and cash equivalents captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 18,513,668	\$ 489,165	\$ 19,002,833
Cash and cash equivalents - restricted	<u>1,798,459</u>	<u>-</u>	<u>1,798,459</u>
	<u>\$ 20,312,127</u>	<u>\$ 489,165</u>	<u>\$ 20,801,292</u>

Taylor School District

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Transfers</u> <u>and</u> <u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Governmental activities				
Land	\$ 798,693	\$ -	\$ -	\$ 798,693
Construction in progress	608,939	319,722	(608,939)	319,722
Land improvements	3,311,879	185,847	-	3,497,726
Buildings and improvements	32,316,829	1,558,322	381,223	34,256,374
Buses and other vehicles	4,984,822	-	-	4,984,822
Furniture and equipment	<u>3,179,403</u>	<u>49,866</u>	<u>(15,890)</u>	<u>3,213,379</u>
Totals at historical cost	45,200,565	2,113,757	(243,606)	47,070,716
Less accumulated depreciation for:				
Land improvements	(2,077,759)	(99,539)	-	(2,177,298)
Buildings and improvements	(15,687,416)	(782,439)	227,716	(16,242,139)
Buses and other vehicles	(3,519,378)	(212,303)	-	(3,731,681)
Furniture and equipment	<u>(2,110,268)</u>	<u>(108,707)</u>	<u>1,788</u>	<u>(2,217,187)</u>
Total accumulated depreciation	<u>(23,394,821)</u>	<u>(1,202,988)</u>	<u>229,504</u>	<u>(24,368,305)</u>
Capital assets, net	<u>\$ 21,805,744</u>	<u>\$ 910,769</u>	<u>\$(14,102)</u>	<u>\$ 22,702,411</u>

Depreciation expense was allocated to governmental functions. The following details the allocation of depreciation expense.

Instruction	\$ 720,339
Supporting services	439,788
Athletics	40,269
Cafeteria	<u>2,592</u>
	<u>\$ 1,202,988</u>

NOTE D: SHORT-TERM NOTES

On August 19, 2005, the District issued a short-term State School Aid Anticipation Note in the amount of \$15,000,000 for the purpose of funding operating expenditures until the 2006 State Aid payments resumed. This short-term note, which has a net outstanding balance of \$15,000,000 at June 30, 2006, is reported in the fund-level and district-wide financial statements under the caption notes payable. The June 30, 2006 outstanding balance will be paid off on August 18, 2006.

Taylor School District

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Amounts Due within One Year</u>
Bonds	\$12,580,000	\$ -	\$ 1,180,000	\$11,400,000	\$ 595,000
Durant Non-Plaintiff Bond	2,043,305	-	154,810	1,888,495	162,144
School Bus Notes	672,143	-	139,363	532,780	145,085
Other obligations	<u>10,035,506</u>	<u>1,986,150</u>	<u>1,899,204</u>	<u>10,122,452</u>	<u>2,003,076</u>
	<u>\$25,330,954</u>	<u>\$ 1,986,150</u>	<u>\$ 3,373,377</u>	<u>\$23,943,727</u>	<u>\$ 2,905,305</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation

\$3,670,000 School Building and Site Bonds dated May 26, 2005, due in annual installments of \$100,000 to \$290,000 through May 1, 2025; interest at 2.75% to 4.50%, payable semi-annually.	\$ 3,670,000
\$6,100,000 School Building and Site Bonds dated June 1, 2004, due in annual installments of \$205,000 to \$470,000 through May 1, 2024; interest at 4.0% to 5.0%, payable semi-annually.	5,750,000
\$3,985,000 Building and Site Technology Bonds dated April 29, 1997, due in annual installments of \$290,000 to \$370,000 through May 1, 2012; interest at 5.35% to 5.70%, payable semi-annually.	<u>1,980,000</u>
	<u>\$11,400,000</u>

Resolution Bonds

\$3,198,329 1998 Durant Non-Plaintiff serial bonds, due in annual installments of \$162,144 to \$755,626 through May 15, 2013; interest at 4.762%. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan.	<u>\$ 1,888,495</u>
--	---------------------

School Bus Notes

\$430,000 School Bus Loan dated May 12, 2004, due in semi-annual installments of \$34,629 to \$40,121 through May 12, 2010; interest at 4.25%, payable semi-annually.	\$ 298,541
\$442,900 School Bus Loan dated November 22, 2002, due in annual installments of \$75,090 to \$81,108 through November 15, 2008; interest at 3.93%, payable annually.	<u>234,239</u>
	<u>\$ 532,780</u>

Taylor School District

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE E: LONG-TERM DEBT - CONTINUED

Other Obligations

Other long-term obligations include the following:

Employee-compensated absences - Current employees	\$ 6,117,486
Employee-compensated absences - Retired employees	1,047,946
Early retirement incentive	1,400,000
Accrued vacation	824,574
Workers' compensation	<u>732,446</u>
	<u>\$10,122,452</u>

The annual requirements to pay the bonds and notes principal and interest outstanding for the long-term debt are as follows.

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 902,229	\$ 602,933	\$ 1,505,162
2008	945,949	562,790	1,508,739
2009	1,567,872	777,927	2,345,799
2010	950,871	475,307	1,426,178
2011	910,345	431,875	1,342,220
2012-2016	3,134,009	1,618,708	4,752,717
2017-2021	2,980,000	1,006,558	3,986,558
2022-2025	<u>2,430,000</u>	<u>260,840</u>	<u>2,690,840</u>
	<u>\$ 13,821,275</u>	<u>\$ 5,736,938</u>	<u>\$ 19,558,213</u>

NOTE F: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes	\$ 105,790	\$ -
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	1,352,834
Other deferred revenue	<u>-</u>	<u>171,263</u>
Total	<u>\$ 105,790</u>	<u>\$ 1,524,097</u>

Taylor School District

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE G: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006, are as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General Fund		
Federal and State Projects	\$ -	\$ 210,298
Other Nonmajor Funds	-	10,894
Fiduciary Fund	<u>-</u>	<u>21,166</u>
	-0-	242,358
Federal and State Projects		
General Fund	687,621	-
Other Nonmajor Funds	-	38,178
Fiduciary Fund		
General Fund	21,166	-
Other Nonmajor Funds		
General Fund	<u>10,894</u>	<u>439,145</u>
	<u>\$ 719,681</u>	<u>\$ 719,681</u>

NOTE H: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds are as follows:

General fund	
Transfer to Special Revenue Funds	
Athletics Fund	\$ 669,650
Cafeteria Fund	181,382
Transfer to Debt Service Funds	
2005 Debt Fund	136,156
2004 Debt Fund	445,738
1997 Debt Fund	399,209
1996 Energy Debt	<u>767,883</u>
	<u>\$ 2,600,018</u>

Taylor School District

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE I: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by writing to the MPSERS at P.O. Box 30171, Lansing, MI 48909-7671.

The payroll for employees covered by the MPSERS for the year ended June 30, 2006, was \$59,117,488; the District's total payroll was \$59,981,951.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period October 1, 2005 to June 30, 2006, the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2006	\$ 1,557,723	\$ 9,453,013	\$11,010,736
2005	1,464,657	8,420,000	9,884,657
2004	1,476,955	7,795,000	9,271,955

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2006	3.0-4.3 %	15.94 %
2005	3.0-4.3	14.40
2004	3.0-4.3	13.00

Taylor School District

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE J: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the fund balance reserves as of June 30, 2006:

General Fund	
Reserved for encumbrances	\$ 248,034
Reserved for inventory and prepaid expenditures	<u>1,162,796</u>
	1,410,830
Special Revenue Funds	
Federal and State Projects	
Reserved for prepaid expenditures	7,534
Cafeteria	
Reserved for inventory	<u>19,470</u>
	27,004
Building and Site Fund	
Reserved for construction commitments	926,533
Reserved for capital projects	<u>776,611</u>
	<u>1,703,144</u>
	<u>\$ 3,140,978</u>

The following are the fund balance designations as of June 30, 2006:

General Fund	
Designated for ERI payments due July 1	\$ 710,000
Designated for severance payments due July 1	570,206
Designated for risk and other liabilities due within one year	<u>3,664,549</u>
	<u>\$ 4,944,755</u>

NOTE K: RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District participates in the MAISL risk pool for claims relating to property loss, torts, errors and omissions. The District is uninsured for workers' compensation, health, dental, and vision claims.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Taylor School District

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE K: RISK MANAGEMENT - CONTINUED

For risk retention situations (other than commercial coverage or risk-sharing pools), the District estimates the liability for workers' compensation, health, dental, and vision claims that have been incurred through the end of the fiscal year. This includes both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the District-wide statements. Changes in the estimated liability for the past two years were as follows:

	<u>2006</u>	<u>2005</u>
Estimated liability - Beginning of year	\$ 2,123,510	\$ 1,961,757
Estimated claims incurred - Including changes in estimates	10,855,702	7,367,852
Claim payments	<u>(10,037,533)</u>	<u>(7,206,099)</u>
Estimated liability - End of year	<u>\$ 2,941,679</u>	<u>\$ 2,123,510</u>

NOTE L: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Taylor School District, a nonplaintiff District, was awarded \$6,396,658 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year, all but \$90,182 of these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE M: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the required supplementary financial statements, the District's budgeted expenditures in the General Fund and the Federal and State Projects Fund have been adopted and reported at the functional classification level.

Taylor School District

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE M: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

During the year ended June 30, 2006, the District incurred expenditures in the General Fund and the Federal and State Projects Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>	<u>Percent of Variance</u>
General Fund				
Added needs	\$ 7,328,848	\$ 7,474,770	\$ 145,922	2 %
General administration	964,765	984,045	19,280	2 %
Central	1,532,725	1,585,111	52,386	3 %
Federal and State Projects				
Community services	231,619	278,689	47,070	20 %

NOTE N: BONDED CONSTRUCTION FUNDS

The Building and Site Fund of the District includes the capital projects activities funded by bonds issued after May 1, 1994. For the projects recorded in the Building and Site Fund, the District has complied with the applicable provisions of Section 1351 (1) of the Revised School Code for current year expenditures.

NOTE O: CONTRACT COMMITMENTS

The District has entered into various contracts related to the construction and improvements to various school building projects that were not completed at June 30, 2006. The total contractual commitments outstanding at June 30, 2006 was \$926,533. The District's remaining bond proceeds (i.e., fund balance) along with future anticipated investment earnings are expected to be sufficient to cover these commitments.

NOTE P: SUBSEQUENT EVENTS

After the year ended June 30, 2006, the following significant events occurred:

On August 18, 2006, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan totaled \$6,000,000 and future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

On August 24, 2006, the District issued bonds in the amount of \$5,135,000 to refund portions of the 1997 Building and Site Technology Bonds and 2004 School Building and Site Bonds and to pay the costs of issuance of these bonds.

NOTE Q: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, which was the result of the correction of accounting errors. These adjustments were reported as changes to beginning fund balance. The effect on operations and other affected balances for the current and prior year is as follows:

Taylor School District

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE Q: PRIOR PERIOD ADJUSTMENTS - CONTINUED

	<u>2006</u>	<u>2005</u>	<u>Description</u>
GENERAL FUND			
Due from other funds	\$ -	\$ 187,586	Correction of accounting errors
Revenues over (under) expenses	-	-	
Fund balance - beginning	187,586	187,586	
SPECIAL EDUCATION			
Due to other funds	-	149,408	Correction of accounting errors
Revenues over (under) expenses	-	-	
Fund balance - beginning	(149,408)	(149,408)	
FEDERAL AND STATE PROJECTS			
Due to other funds	-	38,178	Correction of accounting errors
Revenues over (under) expenses	-	-	
Fund balance - beginning	(38,178)	(38,178)	

REQUIRED SUPPLEMENTARY INFORMATION

Taylor School District

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 13,671,346	\$ 15,594,656	\$ 15,310,480	\$ (284,176)
State sources	69,172,298	67,118,319	66,797,166	(321,153)
Federal sources	134,021	14,665	16,610	1,945
OTHER FINANCING SOURCES				
Interdistrict	901,898	1,043,129	1,024,688	(18,441)
Property sales	2,024,065	-	-	-0-
TOTAL REVENUES AND OTHER FINANCING SOURCES	85,903,628	83,770,769	83,148,944	(621,825)
EXPENDITURES				
Current				
Instruction				
Basic programs	40,409,082	38,771,837	38,614,200	157,637
Added needs	7,186,930	7,328,848	7,474,770	(145,922)
Total instruction	47,596,012	46,100,685	46,088,970	11,715
Supporting services				
Pupil	4,738,672	4,560,572	4,487,696	72,876
Instructional staff	2,330,333	2,352,793	2,251,758	101,035
General administration	878,263	964,765	984,045	(19,280)
School administration	5,272,169	5,111,233	5,026,659	84,574
Business	2,870,841	2,833,900	2,768,298	65,602
Central	1,311,301	1,532,725	1,585,111	(52,386)
Pupil transportation	4,418,544	4,313,282	4,252,990	60,292
Operations and maintenance	12,690,190	13,111,386	13,011,871	99,515
Other supporting services	515,436	498,956	383,067	115,889
Total supporting services	35,025,749	35,279,612	34,751,495	528,117
Capital Outlay	372,516	353,918	365,631	(11,713)
Debt service				
Principal retirement	\$ 139,363	\$ 139,363	\$ 139,363	\$ -
Interest, fiscal, and other charges	26,880	26,880	26,880	-0-
Total debt service	166,243	166,243	166,243	-

Taylor School District

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING USES				
Transfers to other funds	2,473,143	2,717,700	2,600,018	117,682
Payments to other districts	234,380	-	-	-0-
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>85,868,043</u>	<u>84,618,158</u>	<u>83,972,357</u>	<u>645,801</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	35,585	(847,389)	(823,413)	23,976
Fund balance, beginning of year	8,313,429	8,313,429	8,313,429	-0-
Prior period adjustments	-	-	187,586	187,586
Fund balance, end of year	<u>\$ 8,349,014</u>	<u>\$ 7,466,040</u>	<u>\$ 7,677,602</u>	<u>\$ 211,562</u>

Taylor School District

Federal and State Projects
Special Revenue Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 119,154	\$ 146,881	\$ 153,578	\$ 6,697
State sources	4,910,219	6,412,866	4,508,535	(1,904,331)
Federal sources	6,233,693	8,850,951	7,150,014	(1,700,937)
TOTAL REVENUES	11,263,066	15,410,698	11,812,127	(3,598,571)
EXPENDITURES				
Current				
Instruction				
Basic programs	3,120,914	3,821,175	2,529,826	1,291,349
Added needs	4,722,999	7,104,646	5,027,668	2,076,978
Total instruction	7,843,913	10,925,821	7,557,494	3,368,327
Supporting services				
Pupil	1,205,035	1,442,200	1,329,457	112,743
Instructional staff	1,425,465	1,977,815	1,749,316	228,499
General administration	1,100	1,100	1,100	-0-
Central	118,954	168,751	118,370	50,381
Pupil transportation	221,372	322,535	102,412	220,123
Operations and maintenance	34,280	29,370	20,762	8,608
Other supporting services	158,222	293,612	218,983	74,629
Total supporting services	3,164,428	4,235,383	3,540,400	694,983
Community services	254,725	231,619	278,689	(47,070)
Capital Outlay	-	17,875	29,044	(11,169)
TOTAL EXPENDITURES	11,263,066	15,410,698	11,405,627	4,005,071
EXCESS OF REVENUES (UNDER) EXPENDITURES	-	-	406,500	406,500
Fund balance, beginning of year	(368,322)	(368,322)	(368,322)	-0-
Prior period adjustments	-	-	(38,178)	(38,178)
Fund balance, end of year	\$ (368,322)	\$ (368,322)	\$ -	\$ 368,322

OTHER SUPPLEMENTARY INFORMATION

Taylor School District

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	Special Revenue			Debt
	Athletics	Cafeteria	Special Education	1996 Energy Debt
ASSETS				
Cash	\$ -	\$ -	\$ -	\$ 1,229
Accounts receivable	208	1,790	-	-
Due from other governmental units	-	133,328	551,680	-
Due from other funds	10,894	-	-	-
Inventories	-	19,470	-	-
TOTAL ASSETS	<u>\$ 11,102</u>	<u>\$ 154,588</u>	<u>\$ 551,680</u>	<u>\$ 1,229</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,402	\$ 2,575	\$ 1,779	\$ -
Accrued payroll	8,210	7,529	206,180	-
Other accrued liabilities	1,490	1,528	48,761	-
Due to other funds	-	142,956	294,960	1,229
TOTAL LIABILITIES	11,102	154,588	551,680	1,229
FUND BALANCES				
Reserved for				
Inventory	-	19,470	-	-
Unreserved				
Undesignated, reported in:				
Special Revenue Funds	-	(19,470)	-	-
TOTAL FUND BALANCES	-	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,102</u>	<u>\$ 154,588</u>	<u>\$ 551,680</u>	<u>\$ 1,229</u>

Service

1997 Debt	2004 Debt	2005 Debt	Durant Debt	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,229
-	-	-	-	1,998
-	-	-	-	685,008
-	-	-	-	10,894
-	-	-	-	19,470
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 718,599</u>
\$ -	\$ -	\$ -	\$ -	\$ 5,756
-	-	-	-	221,919
-	-	-	-	51,779
-	-	-	-	439,145
-0-	-0-	-0-	-0-	718,599
-	-	-	-	19,470
-	-	-	-	(19,470)
-	-	-	-	-
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 718,599</u>

Taylor School District

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	Special Revenue			Debt
	Athletics	Cafeteria	Special Education	1996 Energy Debt
REVENUES				
Local sources	\$ 216,431	\$ 927,143	\$ -	\$ -
State sources	-	250,097	741,662	-
Federal sources	-	1,988,347	-	-
Interdistrict	-	-	2,913,716	-
OTHER FINANCING SOURCES				
Transfers from other funds	669,650	181,382	-	767,883
TOTAL REVENUES AND OTHER FINANCING SOURCES	886,081	3,346,969	3,655,378	767,883
EXPENDITURES				
Current				
Instruction	-	-	1,250,364	-
Support services	-	-	1,892,864	-
Food service activities	-	3,308,814	-	-
Athletic activities	886,081	-	-	-
Capital outlay	-	38,155	4,148	-
Debt service				
Principal retirement	-	-	-	730,000
Interest, fiscal and other charges	-	-	-	38,325
TOTAL EXPENDITURES	886,081	3,346,969	3,147,376	768,325
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	-	-	508,002	(442)
Fund balances, beginning of year	-	-	(358,594)	442
Prior period adjustments	-	-	(149,408)	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Service

1997 Debt	2004 Debt	2005 Debt	Durant Debt	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,143,574
-	-	-	224,597	1,216,356
-	-	-	-	1,988,347
-	-	-	-	2,913,716
<u>399,209</u>	<u>445,738</u>	<u>136,156</u>	<u>-</u>	<u>2,600,018</u>
399,209	445,738	136,156	224,597	9,862,011
-	-	-	-	1,250,364
-	-	-	-	1,892,864
-	-	-	-	3,308,814
-	-	-	-	886,081
-	-	-	-	42,303
275,000	175,000	-	154,811	1,334,811
<u>124,209</u>	<u>270,738</u>	<u>136,156</u>	<u>69,786</u>	<u>639,214</u>
<u>399,209</u>	<u>445,738</u>	<u>136,156</u>	<u>224,597</u>	<u>9,354,451</u>
-	-	-	-	507,560
-	-	-	-	(358,152)
-	-	-	-	(149,408)
<u>\$ -</u>				

Taylor School District

SCHEDULE OF BONDED DEBT OUTSTANDING

Year Ended June 30, 2006

June 30	Durant Principal	1997 Debt Principal	2004 Debt Principal	2005 Debt Principal
2007	\$ 162,144	\$ 290,000	\$ 205,000	\$ 100,000
2008	169,906	305,000	215,000	105,000
2009	755,625	320,000	225,000	110,000
2010	186,464	340,000	235,000	110,000
2011	195,345	355,000	250,000	110,000
2012	204,635	370,000	260,000	120,000
2013	214,375	-	275,000	190,000
2014	-	-	290,000	190,000
2015	-	-	300,000	200,000
2016	-	-	315,000	205,000
2017	-	-	335,000	210,000
2018	-	-	350,000	220,000
2019	-	-	365,000	230,000
2020	-	-	385,000	235,000
2021	-	-	405,000	245,000
2022	-	-	425,000	255,000
2023	-	-	445,000	270,000
2024	-	-	470,000	275,000
2025	-	-	-	290,000
Total	<u>\$ 1,888,494</u>	<u>\$ 1,980,000</u>	<u>\$ 5,750,000</u>	<u>\$ 3,670,000</u>
Principal payments due	May 15	May 1	May 1	May 1
Interest payments due	May 15	May 1 and November 1	May 1 and November 1	May 1 and November 1
Interest rate	4.76%	5.35% to 5.70%	4.00% to 5.00%	2.75% to 4.50%
Original issue	<u>\$ 3,198,329</u>	<u>\$ 3,985,000</u>	<u>\$ 6,100,000</u>	<u>\$ 3,670,000</u>

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Taylor School District
Taylor, Michigan

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Taylor School District as of and for the year ended June 30, 2006, which collectively comprise Taylor School District's basic financial statements, and have issued our report thereon dated September 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Taylor School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Taylor School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Education of Taylor School District, the pass-through grantors, and the U.S. Departments of Health and Human Services, Agriculture and Education and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 27, 2006

Taylor School District

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2006

Taylor School District

TABLE OF CONTENTS

June 30, 2006

	<u>Page</u>
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	1-2
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	3-10
Notes to Schedule of Expenditures of Federal Awards	11-12
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13
SCHEDULE OF FINDINGS	14
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	15

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Taylor School District
Taylor, Michigan

Compliance

We have audited the compliance of Taylor School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to the major Federal programs for the year ended June 30, 2006. Taylor School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs are the responsibility of Taylor School District's administration. Our responsibility is to express an opinion on Taylor School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major Federal programs occurred. An audit includes examining, on a test basis, evidence about Taylor School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Taylor School District's compliance with those requirements.

In our opinion, Taylor School District complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The administration of Taylor School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Taylor School District's internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major Federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Taylor School District as of and for the year ended June 30, 2006, and have issued our report thereon dated September 27, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Taylor School District's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and administration of Taylor School District, the pass-through grantors, and the U.S. Departments of Agriculture, Health and Human Services, Homeland Security and Education and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 27, 2006

Taylor School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Year Ended June 30, 2006

Program Title/Pass-through Entity/Project Number	TSD Number	CFDA Number
Clusters:		
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education:		
National School Breakfast Program - 2004-2005		10.553 ^(f)
National School Lunch Program - 2004-2005		10.555 ^(f)
National School Breakfast Program - 2005-2006		10.553 ^(f)
National School Lunch Program - 2005-2006		10.555 ^(f)
Total Child Nutrition Cluster		
Special Education Cluster - U.S. Department of Education - Passed through the Michigan Department of Education		
IDEA:		84.027A ^(g)
Project number SPSR - 060440	593	
Passed through the Wayne County RESA:		
IDEA:		84.027A ^(g)
Project number 040550-0405	441	
Project number 040550-0405	443	
Project number unknown	465	
Project number unknown	492	
Project number 060450-0506	541	
Project number 060450-0506	543	
Project number unknown	592	
Total IDEA		
Preschool Incentive:		84.173A ^(g)
Project number 040560-0405	442	
Project number 060460-0506	542	
Total Preschool Incentive		
Total Special Education Cluster		
Medicaid Cluster - U.S. Department of Health and Human Services- Passed through the Wayne County RESA:		
Medicaid School-based Services: Pupil Transportation	N/A	93.778 ^(h)
Other Federal Awards:		
U.S. Department of Education:		
Direct program - Indian Education - Project number S060A040660-2004-2005	427	84.060A

Approved Awards Amount	Restated (Memo Only) Prior Year Expenditures	Restated Accrued (Deferred) Revenue at July 1, 2005	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
\$ 340,108	\$ 311,501	\$ 20,796	\$ 49,403	\$ 28,607	\$ -
1,492,248	1,350,297	84,342	226,293	141,951	-
302,271	-	-	280,910	302,271	21,361
<u>1,323,072</u>	<u>-</u>	<u>-</u>	<u>1,241,112</u>	<u>1,323,072</u>	<u>81,960</u>
3,457,699	1,661,798	105,138	1,797,718 (d)	1,795,901	103,321
4,700	-	-	864	4,700	3,836
2,536,485	911,245	48,851	1,674,091	1,625,240	-
88,102	88,102	8,810	8,810	-	-
7,500	7,417	7,417	7,417	-	-
28,300	18,797	4,647	4,647	-	-
2,483,850	-	-	679,000	711,300	32,300
100,050	-	-	90,045	100,050	10,005
28,300	-	-	-	27,718	27,718
<u>5,277,287</u>	<u>1,025,561</u>	<u>69,725</u>	<u>2,464,874</u>	<u>2,469,008</u>	<u>73,859</u>
131,819	131,819	13,181	13,181	-	-
<u>106,053</u>	<u>-</u>	<u>-</u>	<u>95,448</u>	<u>106,053</u>	<u>10,605</u>
<u>237,872</u>	<u>131,819</u>	<u>13,181</u>	<u>108,629</u>	<u>106,053</u>	<u>10,605</u>
5,515,159	1,157,380	82,906	2,573,503	2,575,061	84,464
14,665	-	-	14,665	14,665	-
43,461	37,236	37,236	37,236	-	-

Taylor School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Year Ended June 30, 2006

Program Title/Pass-through Entity/Project Number	TSD Number	CFDA Number
Other Federal Awards (Continued):		
U.S. Department of Education (Continued):		
Passed through the Michigan Department of Education:		
Elementary and Secondary Education Hurricane Relief		
Katrina FY 2006:		
Project number 064120	N/A	84.938C
Title I:		
Project number 051530-0405	457	84.010 (e)
Project number 041530-0405	477	
Project number 061530-0506	557	
Project number 051530-0506	547	
Total Title I		
Title I School Improvement		
Project number 041550-0405	487-489	84.010 (e)
Project number 051550-0506	587-589	
Total Title I School Improvement		
Total Title I		
Title V:		
Project number 050250-0405	454	84.298
Project number 060250-0506	554	
Total Title V		
Title IIA:		
Project number 050520-0405	458	84.367 (e)
Project number 040520-0405	467	
Project number 060520-0506	558	
Project number 050520-0506	567	
Total Title IIA		
Safe and Drug-free Schools and Communities:		
Project number 052860-0405	460	84.186
Project number 042860-0405	461	
Project number 062860-0506	560	
Project number 052860-0506	561	
Total Safe and Drug-free Schools and Communities		

Approved Awards Amount	Restated (Memo Only) Prior Year Expenditures	Restated Accrued (Deferred) Revenue at July 1, 2005	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
1,945	-	-	-	1,945	1,945
2,148,951	2,019,108	824,429	954,272	129,843	-
324,169	324,169	188,609	188,609	-	-
2,564,551	-	-	1,620,937	2,240,446	619,509
<u>377,046</u>	<u>-</u>	<u>-</u>	<u>377,046</u>	<u>377,046</u>	<u>-</u>
5,414,717	2,343,277	1,013,038	3,140,864	2,747,335	619,509
15,183	-	-	15,183	15,183	-
120,000	-	-	7,900	19,475	11,575
<u>135,183</u>	<u>-</u>	<u>-</u>	<u>23,083</u>	<u>34,658</u>	<u>11,575</u>
5,549,900	2,343,277	1,013,038	3,163,947	2,781,993	631,084
50,857	50,012	13,592	14,437	845	-
<u>36,408</u>	<u>-</u>	<u>-</u>	<u>23,178</u>	<u>25,297</u>	<u>2,119</u>
87,265	50,012	13,592	37,615	26,142	2,119
523,631	499,734	140,268	164,165	23,897	-
288,001	288,001	180,058	180,058	-	-
736,484	-	-	591,363	613,394	22,031
<u>208,686</u>	<u>-</u>	<u>-</u>	<u>208,686</u>	<u>208,686</u>	<u>-</u>
1,756,802	787,735	320,326	1,144,272	845,977	22,031
79,380	79,380	36,643	36,643	-	-
9,492	9,492	6,720	6,720	-	-
77,133	-	-	62,295	72,554	10,259
<u>9,313</u>	<u>-</u>	<u>-</u>	<u>9,313</u>	<u>9,313</u>	<u>-</u>
175,318	88,872	43,363	114,971	81,867	10,259

Taylor School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Year Ended June 30, 2006

Program Title/Pass-through Entity/Project Number	TSD Number	CFDA Number
Other Federal Awards (Continued):		
U.S. Department of Education (Continued):		
Passed through the Michigan Department of Education (Continued):		
Title II Part D Tech Literacy Challenge		84.318
Project number 054290-0405	453	
Project number 054290-0506	552	
Project number 064290-0506	553	
Total Technology Literacy Challenge		
Comprehensive School Reform Demonstration Program:		84.332
Project number 041880-0405	416	
Title IV, Part A - Community Service for Expelled Students		84.184C
Project number 042600/OCS03	420	
McKinney-Vento Homeless Assistance Act Grant		84.196A
Project number 062320-0506	518	
Total noncluster programs passed through the Michigan Department of Education		
Passed through the Wayne County RESA:		
Vocational Education:		
Perkins 2004-2005	501	84.048A
Perkins 2005-2006	501	
Total noncluster programs passed through Wayne County RESA		
Passed through Eaton Intermediate School District		
Community Service Grant:		
Project number 042600/OCS03	520	84.184C
Passed through the Michigan Department of Community Health - Office of Drug Control Policy - Safe and Drug-free Schools and Communities - Governor's Discretionary Grant -		
Project number Q186B040024	415	84.186A
Project number S186B050024	515	
Total noncluster programs passed through Michigan Department of Community Health		

Approved Awards Amount	Restated (Memo Only) Prior Year Expenditures	Restated Accrued (Deferred) Revenue at July 1, 2005	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
54,387	54,387	16,858	16,858	-	-
9,809	-	-	9,809	9,809	-
<u>47,843</u>	<u>-</u>	<u>-</u>	<u>31,737</u>	<u>34,062</u>	<u>2,325</u>
112,039	54,387	16,858	58,404	43,871	2,325
149,086	123,925	36,170	61,331	25,161	-
93,750	93,750	93,750	93,750	-	-
<u>19,847</u>	<u>-</u>	<u>-</u>	<u>7,344</u>	<u>17,694</u>	<u>10,350</u>
7,945,952	3,541,958	1,537,097	4,681,634	3,824,650	680,113
198,709	198,709	98,709	98,709	-	-
<u>198,709</u>	<u>-</u>	<u>-</u>	<u>198,709</u>	<u>198,709</u>	<u>-</u>
397,418	198,709	98,709	297,418	198,709	-
5,500	-	-	5,395	5,395	-
50,000	31,433	29,395	47,962	18,567	-
<u>60,000</u>	<u>-</u>	<u>-</u>	<u>30,141</u>	<u>31,098</u>	<u>957</u>
110,000	31,433	29,395	78,103	49,665	957

Taylor School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Year Ended June 30, 2006

Program Title/Pass-through Entity/Project Number	TSD Number	CFDA Number
Other Federal Awards (Continued):		
U.S. Department of Education (Continued):		
Passed through Monroe County Intermediate School - MCISD:		84.048
Tech prep 2004-2005	474	
Tech prep 2005-2006	574	
Total noncluster programs passed through Monroe County Intermediate School		
Total U.S. Department of Education		
U.S. Department of Agriculture - Passed through the Michigan Department of Education - Food Distribution:		
Entitlement commodities - 2005-2006		10.550
Bonus commodities - 2004-2005		
Total commodities		
Fresh fruit and vegetable program		10.582
Project number 060950-04141	510	
Total U.S. Department of Agriculture		
U.S. Department of Health and Human Services		
Passed through the Family Independence Agency - Title IVB - Family Preservation and Support Services:		
Project number SFSC-02-82006-4	417	93.556
Passed through the Michigan Department of Education - CDC Grant - CSHP Tech Assist Grant		
Project number 054400-ACS0305	597	93.938
Total U.S. Department of Health and Human Services		
U.S. Department of Homeland Security		
Passed through the Michigan State Police- 2003 State Homeland Security Grant Program Part II- Security Equipment Grant	519	97.004
Total federal awards		

Approved Awards Amount	Restated (Memo Only) Prior Year Expenditures	Restated Accrued (Deferred) Revenue at July 1, 2005	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
6,575	6,575	442	442	-	-
<u>6,051</u>	<u>-</u>	<u>-</u>	<u>6,051</u>	<u>6,051</u>	<u>-</u>
<u>12,626</u>	<u>6,575</u>	<u>442</u>	<u>6,493</u>	<u>6,051</u>	<u>-</u>
8,471,496	3,778,675	1,665,643	5,069,043	4,084,470	681,070
162,123	-	-	162,123 (a)	162,123 (c)	-
<u>3,209</u>	<u>-</u>	<u>-</u>	<u>3,209</u> (a)	<u>3,209</u> (c)	<u>-</u>
165,332	-	-	165,332	165,332	-
<u>27,114</u>	<u>-</u>	<u>-</u>	<u>23,426</u>	<u>27,114</u>	<u>3,688</u>
192,446	-	-	188,758	192,446	3,688
216,000	147,773	67,256	130,598	63,342	-
<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>3,000</u>	<u>-</u>
<u>219,000</u>	<u>147,773</u>	<u>67,256</u>	<u>133,598</u>	<u>66,342</u>	<u>-</u>
<u>28,014</u>	<u>-</u>	<u>-</u>	<u>26,615</u>	<u>26,615</u>	<u>-</u>
<u>17,941,940</u>	<u>6,782,862</u>	<u>1,958,179</u>	<u>9,841,136</u>	<u>8,755,500</u>	<u>872,543</u>
			(d)	(b)	

Taylor School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Taylor School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year revenues for the Food Donation Program are determined based on the 2002/03 guidance provided previously from the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report with the exception of the following programs:

<u>Program</u>	<u>Amount from Grant Section Auditor's Report</u>	<u>Amount from Schedule of Expenditures of Federal Awards</u>	<u>Variance</u>
National School Breakfast			
2004-05	\$ 28,607	\$ 49,403	\$(20,796)
2005-06	307,439	280,910	26,529
National School Lunch			
2004-05	141,951	226,293	(84,342)
2005-06	<u>1,317,904</u>	<u>1,241,112</u>	<u>76,792</u>
	<u>\$ 1,795,901</u>	<u>\$ 1,797,818</u>	<u>\$(1,817)</u>

The net difference of \$1,817 is the result of the District actually receiving funds for the June 2005 and 2006 reimbursements in July 2005 and 2006, respectively. However, the Grant Section Auditor's Report reported these amounts as having been received as of June 30, 2005 and 2006, respectively.

- (e) Denotes programs tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Denotes programs required to be clustered by the United States Department of Education.
- (h) Denotes programs required to be clustered by the United States Department of Health and Human Services.

Taylor School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

NOTE C: RECONCILIATION OF BASIC FINANCIAL STATEMENTS FEDERAL REVENUE

As of June 30, 2006, federal revenue as it appears on the basic financial statements does not agree to the Schedule of Expenditures of Federal Awards. The following reconciles this difference:

Revenue from federal sources - as reported on financial statements (includes all funds)	\$ 9,154,971
Less federal revenue reported as deferred revenue in the financial statements in the prior year (recognized as revenue in the current year) but reported on the Schedule of Expenditures of Federal Awards in the prior year	<u>(399,471)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 8,755,000</u>

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Taylor School District
Taylor, Michigan

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Taylor School District as of and for the year ended June 30, 2006, which collectively comprise Taylor School District's basic financial statements, and have issued our report thereon dated September 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Taylor School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Taylor School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Education of Taylor School District, the pass-through grantors, and the U.S. Departments of Health and Human Services, Agriculture, Homeland Security and Education and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 27, 2006

Taylor School District

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2006

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There were no reportable conditions disclosed by the audit of the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts and grants that could have a direct and material affect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings regarding internal controls or compliance related to the major programs tested.

The major programs tested to cover 25 percent of the total Federal expenditures were the Title I (CFDA 84.010) and Title IIA (CFDA 84.367) programs. Total Federal expenditures for the year ended June 30, 2006 for the major programs tested were \$3,627,970, which is approximately 41 percent of total Federal expenditures. The District qualified as a low risk auditee.

The District had four (4) Type A programs. Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Basic Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to the Basic Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Taylor School District

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Basic Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Basic Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.

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MANAGEMENT LETTER

To the Board of Education
Taylor School District
Taylor, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of Taylor School District for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving the administration's internal controls and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structures and our discussions with the administration.

1. The District should consider implementation of an Audit Committee of the Board.

During our analysis of the accounting and administrative internal control structures of the District, we noted that the District does not have an Audit Committee (or equivalent Finance Committee) of the Board to oversee the financial reporting and auditing processes of the District. The District currently operates under a Committee of the Whole structure.

Establishment of an Audit Committee of the Board would result in improved oversight of the financial reporting processes of the District. This would also result in a more structured Board relationship and better communication with the external auditors to assure that all potential Board issues and concerns are appropriately addressed during the audit process. A majority of the members of this committee should have a financial and/or auditing background.

We suggest the District consider implementation of an Audit Committee of the Board to strengthen the internal controls over the financial reporting and auditing processes.

2. The District should review and revise certain purchasing policies and procedures.

During our analysis of the accounting and administrative internal control structures of the District, we noted that there are some instances where a "purchase requisition" and "purchase order" were being issued after the purchase was actually initiated and the goods or services were received. This issue was also noted during the audit of the prior year.

We also noted that the Director of Purchasing/Insurance will review the accounting system information to assure that new vendors have been entered appropriately. However, this individual does not periodically review a listing of current vendors from the accounting system to assure legitimacy and accuracy.

The "purchase requisition" and "purchase order" should be issued prior to initiation of the purchase to assure that the appropriate individuals have reviewed the proposed purchase to assure funds are available and to approve the purchase. Also, it would strengthen the internal controls over purchasing if the Director of Purchasing/Insurance would periodically review a report of current vendors to assure legitimacy and accuracy.

We suggest the District review and revise purchasing procedures to assure that purchases are approved prior to initiation of the purchase. We also suggest the Director of Purchasing/Insurance periodically review the listing of current vendors to assure legitimacy and accuracy. A copy of this signed or initialed report should be maintained to document completion of these procedures.

3. The District should better document completion of internal control procedures related to wire transfers.

During our analysis of the accounting and administrative internal control structures of the District, we noted that the Director of Accounting performs all bank wire transfers. This individual generates a "batch" printout as a result of this transfer activity, and the information on this "batch" printout along with the supporting documentation is reviewed and verified by the Bookkeeper Level I. However, the Bookkeeper Level I does not always initial or sign the "batch" printout to document completion of this internal control procedure.

We suggest the District assure that the Bookkeeper Level I initials or signs all "batch" printouts to fully document completion of this internal control procedure.

4. The District should review and revise certain procedures related to decentralized receipt collections.

During our analysis and testing of the decentralized accounting and administrative internal control structures of the District, we noted that one of the two school buildings (Kennedy HS) tested for school activities receipting did not maintain the cash register reports and/or tapes for the entire period of audit. The administration at the school indicated that these records are discarded after completion of each semester.

We also noted that the only documentation on file to support the periodic deposit of athletic gate receipts and season ticket sales was copies of the deposit records. The Athletic administration indicated that prenumbered tickets were not utilized to document gate sales, and also the season passes were not prenumbered. Although the written procedures of the District included forms related to reconciling gate receipts and season tickets (i.e., event forms reconciling receipts to numbers of tickets and season passes sold, etc.), it did not appear that these procedures were being utilized.

We suggest the District review and revise certain procedures related to decentralized receipt collections to assure that adequate internal control procedures are maintained and implemented as required by District policy. The District should periodically review these operations to assure that procedures are being followed.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements and this report does not affect our report on the basic financial statements dated September 27, 2006.

This report is intended solely for the use of the administration and Board of Education of Taylor School District and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 27, 2006